



OFFICE OF THE COUNTY EXECUTIVE


Marc Elrich  
County Executive

Tiffany Ward, Director  
Office of Racial Equity and Social Justice

**MEMORANDUM**

June 30, 2021

To: Jennifer Bryant, Director  
Office of Management and Budget

From: Tiffany Ward, Director  
Office of Racial Equity and Social Justice 

Re: Supplemental Appropriation: MEDCO REIA \_Special Appropriation #21-532

- I. **FINDING:** The Office of Racial Equity and Social Justice (ORESJ) finds that Special Appropriation #21-532 advances racial equity and social justice in Montgomery County. Continued funding of the Montgomery County Incubator Program, in particular investments in Silver Spring, as a designated HUBZone, will benefit entrepreneurs seeking support throughout the development of their business. Given existing racial inequities on a range of economic indicators related to starting a business, incubators and other business development intermediaries are especially important for entrepreneurs of color. Advancements in racial equity for entrepreneurs will also benefit women entrepreneurs and other entrepreneurs facing structural barriers to starting and growing their business.
- II. **BACKGROUND:** Special Appropriation #21-532 provides additional funding, through a return of funds from the Maryland Economic Development Corporation and Launch Workplaces, to the Montgomery County Incubator Program. The appropriation will support the continued maintenance and operations of the Silver Spring, Rockville, and Germantown Innovation Center and the National Cybersecurity Center of Excellence.

Incubator programs help entrepreneurs at various stages of business development access resources needed to start and grow their business. Incubators often provide a combination of management guidance, technical assistance, consulting, flexible space, shared basic business

services and equipment, virtual memberships, technology support services, and assistance in obtaining financing<sup>1</sup>.

During start-up, these resources are particularly important for entrepreneurs who face structural inequities in financing and forming their business. For entrepreneurs of color a combination of lower levels of wealth, barriers in accessing (fair, affordable) bank financing, student debt, and inequities in labor market and educational opportunities and outcomes present obstacles to business formation<sup>2</sup>. In a recent research brief, scholars examine disparities between Black and White entrepreneurs' pathways to business ownership and explain the influence of prior levels of wealth on business formation. The authors also explain, more generally, how historical racial injustice has shaped "business opportunities, economic prospects, and corresponding potential support networks at present."<sup>3</sup> While an incubator may have less influence over an entrepreneur's underlying economic condition, it can reduce or eliminate certain fixed costs that disproportionately burden entrepreneurs starting with fewer assets and less wealth to leverage in the start-up of their business. The Federal Reserve Board of Governors analysis of the 2019 Survey of Consumer Finances indicates that the typical White family has eight times the wealth of the typical Black family and five times the wealth of the typical Hispanic family<sup>4</sup>. In addition to helping entrepreneurs manage start-up costs, incubators also house business advisory services and grant access to professional and peer networks. Because wealth creates various social and political benefits<sup>5</sup>, the absence of it also impacts an entrepreneur's access to trusted networks of support and information. Research explains that "for entrepreneurs who lack social and business networks and family members with experience in business ownership...finding advisors, coaches, or mentors who can provide trusted and unbiased advice can be key to their success."<sup>6</sup> Taken together, racial wealth disparities have an outsized impact on entrepreneurs of color—how they are able to capitalize their business and whether they have access to the information and networks necessary to overcome challenges inherent in starting a business. Because of the kinds of

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<sup>1</sup> Maryland Business Innovation Association. MBIA Member Centers. <https://incubatemaryland.org/incubators/>.

<sup>2</sup> Joyce A. Klein. *Bridging the Racial Wealth Divide: How Business Ownership Can Help Close the Racial Wealth Gap*. FIELD at The Aspen Institute. January 2017. <https://www.aspeninstitute.org/wp-content/uploads/2017/01/Bridging-the-Divide.pdf>.

<sup>3</sup> : M'Balou Camara, Khaing Zaw, Darrick Hamilton, and William Darity Jr. The Samuel DuBois Cook Center on Social Equity, Duke University, The Institute on Assets and Social Policy, Brandeis University, The Kirwan Institute for the Study of Race and Ethnicity, The Ohio State University *Entering Entrepreneurship: Racial Disparities in the Pathways into Business Ownership*. October 2019. <https://socialequity.duke.edu/wp-content/uploads/2019/10/Entering-Entrepreneurship.pdf>.

<sup>4</sup> Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu with assistance from Julia Hewitt. Board of Governors of the Federal Reserve System. *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*. September 28, 2020. <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm>

<sup>5</sup> M'Balou Camara, Khaing Zaw, Darrick Hamilton, and William Darity Jr.

<sup>6</sup> Joyce A. Klein.

financial and advisory supports incubators provide, investing in them and other business development intermediaries is important for reducing racial inequities in business formation. In Montgomery County, the Innovation Centers making up the County's Incubator Program provide critical business infrastructure and business development support for technology, cybersecurity, and life science firms. According to available information, the program has graduated over 125 companies and worked with more than 350 teams of entrepreneurs<sup>7</sup>. The program also serves foreign companies interested in a "soft landing" in Montgomery County. Each innovation center offers a unique set of resources and benefits. The Silver Spring Innovation Center is a US Small Business Administration historically underutilized business zone (HUBZone). HUBZone certified businesses are given preferential treatment in accessing federal procurement opportunities. These and other designations that create procurement demand for small minority and women-owned business enterprises are necessary. A recent report looking at the role of local procurement in advancing equity explains how long-term inequities and bias have put Minority/Women-Owned Business Enterprise (MWBEs) in a weaker position to both get through the procurement process and survive the economic downturn created by the Pandemic<sup>8</sup>. Therefore, investments in incubators and other intermediaries that support or enable procurement opportunities for MWBEs are critical; given its location and existing HUBZone designation, it appears that the Silver Spring Innovation Center would be well positioned to deliver that support.

- III. **ANALYSIS OF DATA:** At the time of this analysis, recent data about owner and business characteristics of Incubator program tenants and graduates were not available. ORESJ can therefore not assess the extent to which the Innovation Centers are reaching women and minority owners and whether the rates of utilization are proportionate with the number of women and minority-owned firms in the County.

To determine proportionality, we could use the US Census, 2012 Survey of Business Owners. The below table shows the percentage of total firms that are minority, veteran, and women-owned in Montgomery County based on the definitions used in the 2012 Survey of Business Owners.

Firms in Montgomery County	Number of firms	% of all firms
All Firms, 2012	118,965.00	100%
Men-owned firms, 2012	62,015.00	52%
Women-owned firms, 2012	46,404.00	39%
Minority-owned firms, 2012	51,051.00	43%
Nonminority-owned firms, 2012	63,992.00	54%

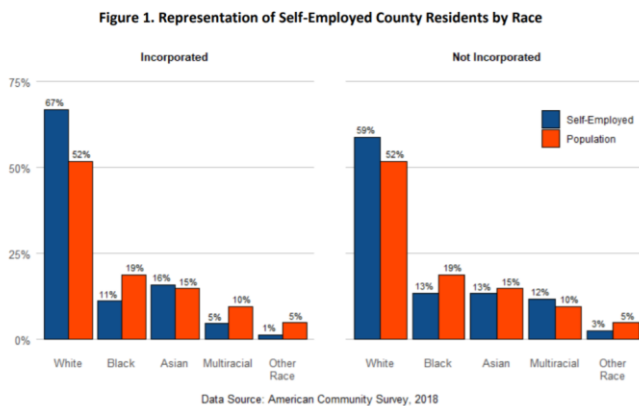
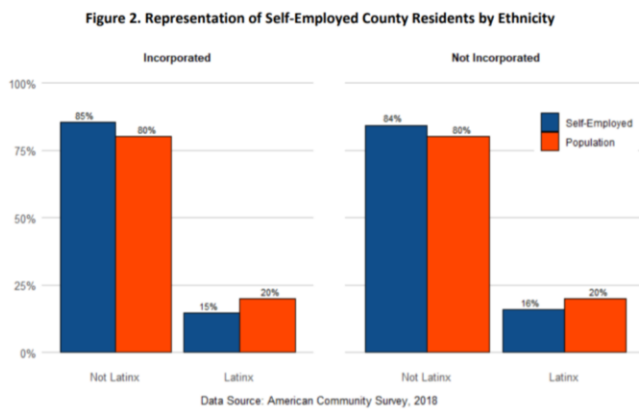
<sup>7</sup> Montgomery County Business Innovation website. <https://www.mcinnovationnetwork.com/>. Accessed June 22, 2021.

<sup>8</sup> Kaye Sklar. Open Contracting Partnership and The Aspen Institute Center for Urban Innovation. *A Procurement Path to Equity Strategies for Government and the Business Ecosystem*. 2020. <https://www.open-contracting.org/wp-content/uploads/2020/11/OCP-AspenCUI-2020-Pathway-to-Equity.pdf>

Veteran-owned firms, 2012	9,178.00	8%
Nonveteran-owned firms, 2012	105,555.00	89%

Source: U.S. Census Bureau, 2012 Economic Census: Survey of Business Owners. [Survey of Business Owners and Self-Employed Persons \(SBO\)](#)

In reviewing research provided by OLO on the Covid-19 Recovery Outlook for minority-owned businesses, a more recent approximation of the racial composition of business owners in Montgomery County is using 2018 US Census data on self-employed residents. OLO Analyst Stephen Roblin's analysis indicates an underrepresentation of Black and Latinx self-employed residents compared to their share of the population in Montgomery County.



Source: Stephen Roblin. Montgomery County Office of Legislative Oversight. *Covid-19 Recovery Outlook: Minority-owned businesses*. September 21, 2020.  
<https://www.montgomerycountymd.gov/OLO/Resources/Files/2020%20Reports/COVID-19RecoveryOutlook-MinorityOwnedBusinesses.pdf>

cc: Jerome Fletcher, Assist. Chief Administrative Officer, Office of the County Executive  
Ken Hartman, Director, Office of Strategic Partnerships